

North Dakota REV-E-NEWS



Pam Sharp, Director

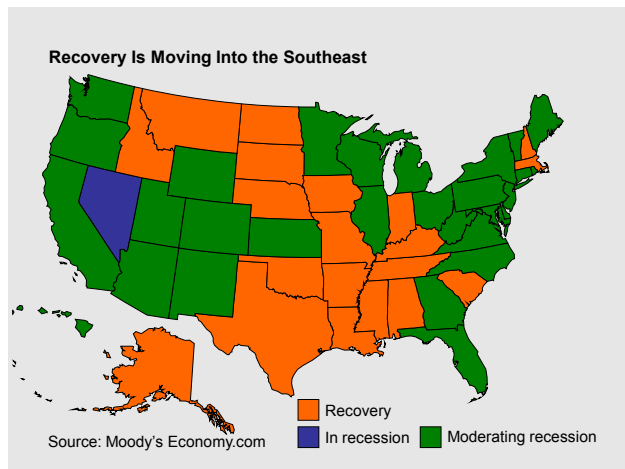
OFFICE OF MANAGEMENT AND BUDGET

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MESSAGE FROM THE DIRECTOR

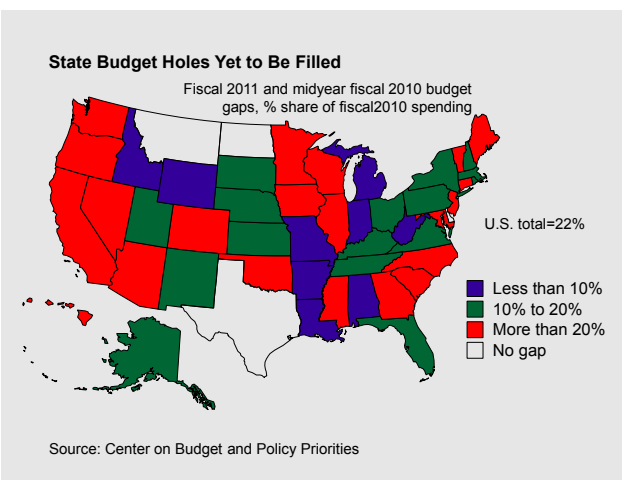
Moody's Economy.com, the state's economic forecasting consultant, reports in its February 2010 Précis Macro publication that the economic recovery is spreading from the Central Plains to the Southeast. Throughout the recent recession, the plains region has led the nation in terms of low unemployment and economic stability. Economy.com reports that only one state, Nevada, is still classified as "in recession." North Dakota, along with South Dakota, Nebraska, Montana, and several other states in the Plains and Midwest regions, is classified as in economic "recovery".



Economy.com notes that oil producing states, such as Texas and North Dakota, have seen a significant increase in drilling activity, including active

drilling rigs and related employment in the energy industry. They conclude that "This will help drive income growth in the energy-producing regions and will generate spending that will support the broader regional economy in the near term."

Even though the outlook for North Dakota continues to be positive, for most states the expiration of federal fiscal stimulus payments, along with projected tax revenues shortfalls, will result in significant budget gaps. Economy.com reports that, on average, "state tax revenues are expected to fall by 4% this fiscal year, followed by a 5% increase in fiscal 2011." Economy.com, referencing information gathered by the Center on Budget and Policy Priorities, notes that only four states, North Dakota, Montana, Texas, and Delaware, anticipate no fiscal 2010 or 2011 budget gap.



OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production – starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Currently, the price of North Dakota crude is around \$73 per barrel. Production dropped slightly in December and January due to snow and cold weather after setting a record high in November at 245,500 barrels per day. The current rig count is 103, more than double the 47 operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Jan 2010	Dec 2009	Nov 2009
ND sweet crude price per barrel	\$68.57	\$63.96	\$67.06
Production (barrels/day)	235,925	241,500	245,500
Drilling permits	101	99	67
Producing wells	4,628	4,623	4,637
Rig count	81	74	63

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium February 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	47,348,000	43,873,102	(3,474,898)	-7.3%	389,206,000	368,058,026	(21,147,974)	-5.4%
Motor Vehicle Excise Tax	2,731,000	3,992,325	1,261,325	46.2%	24,108,000	34,046,367	9,938,367	41.2%
Individual Income Tax	14,461,000	14,183,870	(277,130)	-1.9%	185,728,000	187,562,014	1,834,014	1.0%
Corporate Income Tax	3,801,000	1,729,989	(2,071,011)	-54.5%	46,790,000	38,023,724	(8,766,276)	-18.7%
Insurance Premium Tax	5,000,000	3,642,175	(1,357,825)	-27.2%	16,835,000	12,563,110	(4,271,890)	-25.4%
Financial Institutions Tax	204,000	264,395	60,395	29.6%	316,000	(724,874)	(1,040,874)	-329.4%
Oil & Gas Production Tax*	1,362,315		(1,362,315)	-100.0%	39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*	2,151,000		(2,151,000)	-100.0%	14,109,000	38,281,667	24,172,667	171.3%
Gaming Tax	1,282,611	1,339,793	57,182	4.5%	5,750,160	5,919,439	169,279	2.9%
Lottery								
Cigarette & Tobacco Tax	1,781,000	1,603,378	(177,622)	-10.0%	15,765,000	15,359,737	(405,263)	-2.6%
Wholesale Liquor Tax	445,000	502,138	57,138	12.8%	4,439,000	4,943,651	504,651	11.4%
Coal Conversion Tax	1,700,000	1,374,650	(325,350)	-19.1%	11,692,000	13,337,489	1,645,489	14.1%
Mineral Leasing Fees	1,800,000	1,414,123	(385,877)	-21.4%	8,400,000	5,419,379	(2,980,621)	-35.5%
Departmental Collections	1,808,544	1,756,781	(51,763)	-2.9%	20,962,409	21,789,049	826,640	3.9%
Interest Income	737,670	729,198	(8,472)	-1.1%	7,922,276	7,018,280	(903,996)	-11.4%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers		6,083	6,083	100.0%	483,000	1,480,577	997,577	206.5%
Total Revenues and Transfers	86,613,140	76,412,001	(10,201,139)	-11.8%	1,086,815,160	1,080,795,969	(6,019,191)	-0.6%

* Oil and gas production and extraction tax collections totaled \$30.9 million in February. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through February, oil tax collections totaling \$110.5 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2009-11 Biennium February 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	February 2008	February 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	41,605,884	43,873,102	2,267,218	5.4%	333,874,180	368,058,026	34,183,847	10.2%
Motor Vehicle Excise Tax	4,788,210	3,992,325	(795,885)	-16.6%	42,770,282	34,046,367	(8,723,915)	-20.4%
Individual Income Tax	12,789,847	14,183,870	1,394,023	10.9%	163,151,539	187,562,014	24,410,475	15.0%
Corporate Income Tax	10,475,057	1,729,989	(8,745,068)	-83.5%	62,746,024	38,023,724	(24,722,300)	-39.4%
Insurance Premium Tax	4,116,812	3,642,175	(474,636)	-11.5%	15,948,095	12,563,110	(3,384,985)	-21.2%
Financial Institutions Tax	183,116	264,395	81,279	44.4%	1,076,185	(724,874)	(1,801,059)	-167.4%
Oil & Gas Production Tax					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	1,530,216	1,339,793	(190,423)	-12.4%	6,860,218	5,919,439	(940,779)	-13.7%
Lottery								
Cigarette & Tobacco Tax	1,736,727	1,603,378	(133,349)	-7.7%	15,395,792	15,359,737	(36,055)	-0.2%
Wholesale Liquor Tax	493,052	502,138	9,086	1.8%	4,668,308	4,943,651	275,343	5.9%
Coal Conversion Tax	1,689,195	1,374,650	(314,545)	-18.6%	15,669,369	13,337,489	(2,331,880)	-14.9%
Mineral Leasing Fees	1,709,121	1,414,123	(294,997)	-17.3%	8,450,994	5,419,379	(3,031,614)	-35.9%
Departmental Collections	2,056,927	1,756,781	(300,147)	-14.6%	21,475,948	21,789,049	313,101	1.5%
Interest Income	1,352,565	729,198	(623,366)	-46.1%	14,525,987	7,018,280	(7,507,707)	-51.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	2,879	6,083	3,204	111.3%	517,350	1,480,577	963,227	186.2%
Total Revenues and Transfers	84,529,608	76,412,001	(8,117,608)	-9.6%	893,130,270	1,080,795,969	187,665,699	21.0%

* Oil and gas production and extraction tax collections totaled \$30.9 million in February. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through February, oil tax collections totaling \$110.5 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

February 2010 revenues were \$76.4 million, \$10.2 million less than projected in the legislative forecast. However, \$3.5 million of this variance is related to oil taxes. The oil tax variance results from a timing difference between the forecast and actual collections. The forecast assumed the \$71.0 million general fund cap on oil taxes would not be reached until June 2011. Due to higher than anticipated oil price and production, the general fund limit was reached in November 2009. Consequently, no additional oil tax collections will be deposited in the general fund during the remainder of the 2009-11 biennium and a negative variance will be reported each month through June 2011. Notable variances for the month are as follows:

- **Sales tax** collections for the month of February are \$3.5 million less than the legislative forecast. Sales tax collections for the biennium to date are 5.4 percent less than the legislative forecast, but 10.2 percent higher than during the first eight months of the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.3 million for the month and \$9.9 million for the biennium to date.
- **Corporate income tax** collections fell short of the

legislative forecast by \$2.1 million for the month, bringing the biennium to date variance to -\$8.8 million.

- **Insurance premium tax** collections fell short of the legislative forecast by \$1.4 million, bringing the biennium to date variance to -\$4.3 million. Credits for administration of the Comprehensive Health Association of North Dakota (CHAND) program have reduced insurance premium tax collections during the 2009-11 biennium. However, the February variance is likely the result of timing issues that will be corrected with March collections.
- **Oil and gas tax** collections for the month are \$30.9 million, \$27.3 million more than estimated in the legislative forecast. The legislative forecast assumed February oil tax collections of \$3.6 million based on January prices of \$47 per barrel and production of 205,000 barrels per day. January prices actually averaged \$69 per barrel and production averaged 236,000 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.

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